

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Executive Committee

September 27, 2005

1:30 pm - 3:00 pm
House Hearing Room C
Olympia

AGENDA

- (A) **Approval of Minutes**
- (B) **Direction on Day's Full Agenda**
- (C) **October Committee Meeting**
 - Briefing Papers
 - Meeting Planner
- (D) **LEOFF 2 Retirement Board Update** - Steve Nelsen,
Executive Director
- (E) **Executive Committee Direction**
 - TRS Out-of-State Service Credit
 - Age 70 1/2 and Opt In/Opt Out
 - Plan 3 Vesting
- (F) **Constituent Correspondence**
- (G) **Actuary Evaluation**

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

***Senator Karen Fraser,**
Vice Chair

***Representative Bill Fromhold,**
Chair

***Leland A. Goeke**
TRS and SERS Employers

***Robert Keller**
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

Glenn Olson
PERS Employers

Senator Craig Pridemore

Diane Rae
TRS Actives

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

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Select Committee on Pension Policy

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EXECUTIVE COMMITTEE DRAFT MINUTES

August 23, 2005

The Select Committee on Pension Policy met in House Hearing Room C, Olympia, Washington on August 23, 2005.

Committee members attending:

Representative Fromhold, Chair	Leland Goeke
Representative Bailey	Robert Keller
Elaine Banks	Sandra J. Matheson
Lois Clement	Corky Mattingly
Representative Conway	Doug Miller
Senator Fraser	J. Pat Thompson

Representative Fromhold, Chair, called the meeting to order at 1:30 PM.

(A) Direction on Day's Full Agenda

Committee members discussed the next steps to be taken on agenda items: SCPP Goals, Plan 1 Unfunded Liability, Disability Retirement, TRS Out-of-Service Credit, Plan 3 Vesting, and Age 70 ½ and Opt In/Opt Out.

(B) September Committee Meeting

Matt Smith, State Actuary, reviewed the "September 27th Meeting Planner" hand-out. Discussion followed.

Lee Goeke moved to bring forward to the Full Committee TRS Out-of-State Service Credit, Plan 3 Vesting, and Age 70 ½ and Opt In/Opt Out. Seconded.

Mr. Goeke retracted his motion as he would like to have further discussions at subsequent Executive Committee meetings.

(C) Judges Benefit Multiplier

Bob Baker, Senior Research Analyst, reviewed the "Judges Benefit Multiplier" briefing paper.

*Elaine M. Banks
TRS Retirees

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PERS Retirees

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Representative Larry Crouse

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(D) Service Credit Purchases

Laura Harper, Senior Research Analyst - Legal, reviewed the "Service Credit Purchases" briefing paper.

(E) 2005 Work Plan Review/Update

Committee members discussed agenda items for future SCPP meetings. The issue "Plan 2/3 VEBA and PEBB Eligibility" was moved to the 2006 interim.

The meeting adjourned at 2:52 PM.

Select Committee on Pension Policy

Direction on Today's Agenda

(September 13, 2005)

Item #	Next Steps/ Add to Month/ WorkPlan
(2) USERRA Compliance Update Staff instructions:	<hr/> <hr/> <hr/>
(3) Judges Benefit Multiplier Staff instructions:	<hr/> <hr/> <hr/>
(4) Service Credit Purchases Staff instructions:	<hr/> <hr/> <hr/>
(5) PSERS Eligibility Staff instructions:	<hr/> <hr/> <hr/>
(6) LEOFF 1 Benefit Cap Staff instructions:	<hr/> <hr/> <hr/>

Select Committee on Pension Policy

October 18 – Meeting Planner

(September 13, 2005)

FULL COMMITTEE AGENDA

- (1) Disability retirement - options
- (2) Service credit purchases - options
- (3) Accounting for post-retirement medical benefits - background
- (4) Plan 1 unfunded liability subgroup report
- (5) Medicare Part D briefing

EXECUTIVE COMMITTEE AGENDA

- (A) Directions on day's Full Committee Issues
- (B) November SCPP Meeting
- (C) Constituent correspondence
- (D) Actuary evaluation

Select Committee on Pension Policy

2005 Work Plan

(September 7, 2005)

June 21, 2005

Election of officers
Rules of procedure
2005 meeting dates
Session update
2005 work plan
2005 mandatory studies - background

July 19, 2005

LEOFF 1 benefit cap - background/options
Postretirement employment - options preview
Plan 1 unfunded liability - background/options
PSERS eligibility - background

August 23, 2005

SCPP goals
Gain-sharing subgroup report
Plan 1 unfunded liability - options
Disability retirement - background
TRS out-of-state service credit
Age 70 ½ and opt in/opt out
Plan 3 vesting

September 27, 2005

USERRA compliance update - DRS report
Judges benefit multiplier - background/options
Service credit purchases - background
PSERS eligibility - DRS report
LEOFF 1 benefit cap - options

Other Items

Reports to legislative fiscal committees - during legislative assembly
January 2006 meeting - session update (pension bills)

Subgroups:

Gain-sharing
Public Safety
Plan 1 Unfunded Liability

October 18, 2005

Disability retirement - options
Service credit purchases - options
Accounting for post-retirement medical benefits - background
Plan 1 unfunded liability subgroup report
Medicare Part D briefing

November 15, 2005

OSA retire-rehire study - report
Post-retirement employment options - SCPP
2004 actuarial valuation report
Gain-sharing subgroup report and recommendations
Public safety subgroup report and recommendations
Plan 1 unfunded liability subgroup report and recommendations
PSERS eligibility - options
Judges benefit multiplier - options
USERRA compliance

December 13, 2005

2006 legislative proposals:
LEOFF 1 benefit cap
Post-retirement employment
Plan 1 unfunded liability
PSERS eligibility
Disability retirement
TRS out-of-state service credit
Age 70 ½ and opt in/opt out
Plan 3 vesting
Gain-sharing
Public Safety / WSP issues
USERRA compliance
Judges benefit multiplier
Service credit purchases

Select Committee on Pension Policy

Accounting for Post-Retirement Medical Benefits

(September 15, 2005)

Issue/Proposal

The Governmental Accounting Standards Board (GASB) establishes accounting rules for information in financial reports of public employers. Recent GASB Statements 43 and 45 require employers to record the costs of Other Post-Employment Benefits (OPEB) such as post-employment medical benefits. The Annual OPEB cost will need to be recognized for financial reporting purposes. An employer's net OPEB liability will need to be shown on financial statements.

Staff

Philip Martin McCauley, Senior Pension Actuary
(360) 786-6150

Impact

GASB 43 and 45 impact the financial statements of employers (state, counties, and cities) who subsidize retiree medical premiums, including the state and local governments, as well as the former employers of Law Enforcement Officers and Fire Fighters (LEOFF) Plan 1 retirees. The new accounting rules could impact the state's and municipal bond ratings and cost of borrowing.

Current Situation

State, K-12, and higher education employees who are retired may continue participation in medical benefits at a subsidized rate through the Public Employees Benefits Board (PEBB). Premiums charged to those not yet eligible for Medicare are based on experience of the community rated risk-pool and are implicitly subsidized. An implicit subsidy is when the rate charged is a blended rate that is less than the rate that would apply to the retirees by themselves.

Premiums charged to those eligible for Medicare are calculated based on experience from their own experience risk pool and are explicitly subsidized. An explicit subsidy is when the employer pays part of the cost. Both types of subsidies carry a cost. The total subsidy for the 2003-2005 biennium was estimated to be \$223 million.

County, municipal, and other political subdivision employees may or may not have retiree medical benefits, depending on the employer. Some counties and cities allow retirees to be covered by their own medical plans. The subsidies vary.

Currently, post-retirement medical benefits are funded on a pay-as-you-go basis. There is no pre-funding. The amount expensed for accounting purposes is currently equal to the amount paid. Payments for medical benefits for LEOFF Plan 1 retirees are also funded by the pay-as-you-go method.

Policy Questions

A key question is how the state and local governments are planning to deal with these accounting rules. Would it be helpful to invite a panel of speakers on this topic to the October meeting?

Next Steps

This issue is scheduled for a full committee briefing in October.

Select Committee on Pension Policy

Medicare Part D

(September 14, 2005)

Issue

Beginning January 1, 2006, Medicare will offer prescription drug coverage to all people who are enrolled in Medicare Parts A and B as their primary health insurance coverage. This benefit is called Medicare Part D.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

Members Impacted

All retired public employees not eligible for benefits through the Public Employee Benefits Board (PEBB) may be impacted by changes in benefits related to Medicare Part D.

Current Situation

Currently, medical benefits for State, K-12, and Higher Education retirees are administered by the PEBB, through the Washington State Health Care Authority (HCA).

Retiree health benefits provided by the PEBB/HCA are principally the continuance of employer provided health benefits for those who are not, at time of retirement, Medicare eligible. Retired members under age 65 are included in the active member "pool" and may continue their health care coverage by purchasing that coverage at active member costs.

When retired members are Medicare eligible – at age 65 – PEBB/HCA benefits become secondary coverage to Medicare's primary coverage.

PEBB/HCA retiree health care benefits currently include prescription drug coverage that is considered to be "creditable coverage" meaning it

is “at least as good” as Medicare Part D. As a result, prescription drug coverage for retired public employees is primarily an issue for those not eligible for PEBB/HCA benefits.

This paper will examine and discuss the implications of Medicare Part D for retired public employees not eligible for PEBB coverage.

Select Committee on Pension Policy

TRS Out-of-State Service Credit

(August 3, 2005)

Issue

The issue before the SCPP is whether to continue to propose legislation allowing eligible members of the Teachers' Retirement System (TRS) Plans 2 and 3 to purchase up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

Members Impacted

This proposal impacts eligible members of TRS Plans 2 and 3. We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

Current Situation

Currently, members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's benefit is actuarially reduced to recognize the difference between the age a member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

Procedural Posture/Executive Committee Recommendation

As the result of the September 7, 2004, briefing of the SCPP on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. In the fall of 2004, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide eligible members of TRS Plans 2/3 the opportunity to purchase up to seven years of out-of-state service credit as membership service, with conditions as set forth in the description below. The Executive Committee directed staff to prepare a bill draft and fiscal note on the proposal and the full Committee approved the proposed legislation for introduction in the 2005 legislative session.

In the 2005 session, the SCPP's bill was introduced as HB 1322/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a total employer cost of \$4.5 million in 2005-2007, \$5.1 million in 2007-2009, and \$130.4 million through 2030. At its July 2005 meeting, the Executive Committee recommended that this issue be brought back to the full committee for consideration on August 23, 2005.

2005 SCPP Legislative Proposal

Eligibility

1. This proposal impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System.
2. The public education experience claimed must have been covered by a governmental retirement or pension plan and the member must not be receiving or eligible to receive an unreduced retirement benefit that includes the service to be purchased.
3. To take advantage of this provision, a member must have between five and ten years of service credit in TRS.

4. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.
5. The service credit purchased is membership service and may be used to qualify the member for retirement.

Cost to Member

1. The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW:

(Employer rate + employee rate) x salary x years of service + compounded interest (8 percent)

The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method.

2. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan and the employer may pay all or a portion of the member's cost.

Policy Analysis

This proposal provides a benefit to the TRS Plans 2 and 3 that is not available in the SERS or PERS Plans 2/3, nor will it be available in PSERS Plan 2. The proposal is inconsistent with the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). If it were passed by the legislature, this proposal could lead to "leapfrogging" in that members of other retirement systems may seek similar or improved service credit purchase opportunities in the future. Proponents of this legislation have argued that the teaching profession has a unique need for this benefit in order to assist in recruitment and retention of teachers.

It should be noted that TRS members have another service credit option that PERS and SERS members do not have and PSERS members will not have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state credit, as it is not used to increase the amount of their benefit.

As of July 1, 2006, all Plan 2/3 members in PERS, SERS and TRS will have the ability at retirement to make a one-time purchase of up to five years of additional service credit (or "air time") in order to offset the required benefit reductions for early retirement. (This ability has not been made available to members of PSERS Plan 2, who have an earlier retirement age for unreduced benefits than members of the Plans 2/3 of PERS and SERS.) There is no cost for this option because the purchase price for "air time" is the actuarial cost, which is paid in full by the member. Since the purchase occurs late in the member's career (at early retirement), the member's cost is higher than it would be early in a member's career. In any event, this benefit is relevant to the out-of-state service credit purchase issue in that members of these plans who have prior service credit from another state could use retirement moneys from those other plans to help purchase "air time."

Comparative Systems

According to a December 7, 2000, report to the Connecticut General Assembly, nearly all teacher retirement plans allow members to purchase credit for out-of-state teaching service, but most impose limits on such purchases. Among the most common are limits on the number of years of service a member can purchase, requiring the member to have a minimum number of years in the state plan before (s)he can purchase other service and limiting purchases to service for which the member will receive no other pension.

The following table summarizes two aspects of out-of-state service credit purchase provisions for teachers using Washington's comparative systems: 1) the maximum number of years that can be purchased, and 2) member cost:

State/System	Maximum Number of Years	Member Cost
CalSTRS	No limit	Years x special contribution rate with age factor x highest earnable compensation during last three years
Colorado PERA	No limit	Actuarial cost
Florida	10 years	20% of annual compensation for first full year of service in FL but not less than \$12,000, plus interest @ 6.5% compounded annually from date of first annual salary until full payment; employer may pay all or part of the cost
Idaho	4 years	Actuarial cost
Iowa	No limit	Actuarial cost
Minnesota TRA	Not allowed	
Missouri PSRS	No more than total service credit earned	Highest annual salary x current contribution rate (ER + EE) = cost for one year of service credit
Ohio STRS	Lesser of 5 years or member's total years of service	50% of actuarial cost
Oregon	4 years	Actuarial cost
Wisconsin	Limited to number of years of participation in WRS at time of purchase	Actuarial cost

For additional resources, see the results of the National Council on Teacher Retirement Portability Study (1999 and 2001 update), www.nctr.org. See also the National Education Association's publication entitled "Characteristics of Large Public Education Pension Plans" (2004), www.nea.org.

2005 Bill Authorizing TRS Out-of-State Service Credit (Attached)

HB 1322/SB 5489 was introduced in the 2005 legislative session and is technically alive for the 2006 session.

Draft Fiscal Note (Attached)

Stakeholder Input (Attached)



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MAY 17 2004

Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

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Patty Laughery, Moses Lake

President-Elect
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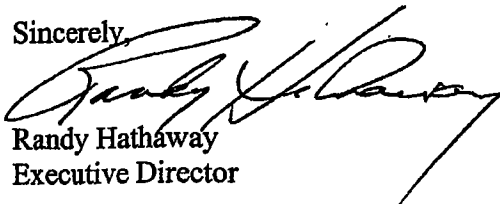
In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning \$50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay \$34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,



Randy Hathaway
Executive Director

cc: Barb Mertens, WASA

HOUSE BILL 1322

State of Washington

59th Legislature

2005 Regular Session

By Representatives Fromhold, Conway, Crouse, Simpson, Linville and Chase; by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

AN ACT Relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government; adding new sections to chapter 41.32 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 2" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the sum of the employer and employee contribution rates multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The applicable employer and employee contribution rates shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the employer contribution rate multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The total amount paid by the member shall be deemed a contribution on behalf of the employer for the purpose of RCW 41.32.867, and shall not be refundable. The applicable employer contribution rate shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 3.** This act takes effect January 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	8/3/05	TRS Out-of-State Service Credit

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of \$50,000 would be as follows:

Plan 2 Member: $\$50,000 \times 11.80\% \times (1 + 1.08(.15)) = \$6,856$
Plan 3 Member: $\$50,000 \times 5.90\% \times (1 + 1.08(.15)) = \$3,428$

ASSUMPTIONS:

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8 percent.

We included the out-of-state service for the benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's turnover and merit increases would be based on service with TRS only.

FISCAL IMPACT:

Description:

The member would pay for the cost of the additional service, but the plan would be partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Teachers' Retirement System Plan 2/3		
		Current	Increase	Total
Actuarial Present Value of Projected Benefits		\$5,256	\$18	\$5,274
<i>(The Value of the Total Commitment to all Current Members)</i>				
Unfunded Actuarial Accrued Liability		N/A	N/A	N/A
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>				
Unfunded Liability (PBO)		\$(1,427)	\$14	\$(1,413)
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>				

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members

Employee	0.05%
Employer State	0.05%

New Entrants*

Employee	n/a
Employer State	0.07%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	<u>TRS 2/3</u>
2006-2007	
State:	
General Fund	\$1.4
Non-General Fund	<u>\$0.0</u>
Total State	\$1.4
Local Government	\$0.8
Total Employer	\$2.2
Total Employee	\$0.2
2007-2009	
State:	
General Fund	\$3.3
Non-General Fund	<u>\$0.0</u>
Total State	\$3.3
Local Government	\$1.6
Total Employer	\$4.9
Total Employee	\$0.4
2006-2031	
State:	
General Fund	\$88.9
Non-General Fund	<u>\$0.0</u>
Total State	\$88.9
Local Government	\$44.5
Total Employer	\$133.4
Total Employee	\$2.8

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Select Committee on Pension Policy

Age 70½ and Opt-in/Opt-out

(August 9, 2005)

Proposal

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reelected after the effective date of the act.

Also allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

This proposal would impact all PERS, SERS, and TRS members who desire to work beyond age 70½ and all members of PERS, SERS, and TRS 2/3 who hold state elective office.

As of the 2004 valuation there were 541 vested members of PERS, SERS, and TRS who were still working at age 70½.

At last count there were 153 state elective officials who were plan members without other public employment.

Current Situation

After separating from employment for one month, PERS and SERS retirees may return to work for up to 867 hours in a calendar year before their benefit is suspended. PERS 1 retirees who separated for three months may

return to work for up to 1,500 hours in a calendar year before their benefit is suspended.

After separating from employment for one month, TRS 1 retirees may return to work for up to 1,500 hours in a school year before their benefit is suspended. After separating from employment for one month, TRS 2/3 retirees may return to work for up to 867 hours in a school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

History

During the 2002 Interim, the Joint Committee on Pension Policy (JCPP) forwarded companion bills SB 5093 and HB 1209 to the 2003 legislature. These bills would have allowed members of PERS, SERS, and TRS Plans 1, 2, and 3 who have attained age 70½ and meet the vesting requirements of their plan to apply for retirement benefits without requiring that they separate from service. Such retirees would not be allowed to continue to make contributions and earn service credit. The bill passed in the Senate, but did not receive a hearing in the House.

The JCPP also forwarded companion bills HB 1201 and SB 5095 to the 2003 legislature. This legislation would have allowed PERS, SERS, TRS 2/3, or LEOFF 2 members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing in the House.

Select Committee on Pension Policy

In the 2004 interim the Select Committee on Pension Policy was briefed on the issues and recommended sponsoring legislation for the 2005 session. The resulting legislation, HB 1318, had a total employer cost of \$4.6 million in 2005-07, \$5.5 million in 2007-09, and \$82.8 million through 2030. The bill received a hearing, but did not move from the House Appropriations Committee.

During the 2004 interim the LEOFF 2 retirement board recommended legislation affecting post-LEOFF 2 employment. The bill provides a member who is otherwise "estopped" from membership in another Washington public retirement system with the option to join membership in another Washington retirement system. The bill also provides retirees who become employed in eligible non-LEOFF positions with a choice to either receive their LEOFF pension or enter membership in another plan and suspend receipt of their LEOFF pension until their employment in the other system ends. The 2005 legislature passed the legislation and it was codified as Chapter 372, Laws of 2005.

Policy Analysis

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½. When it was discovered that those rules applied to private plans, the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new policy in the post-retirement employment arena.

The opt-in/opt-out issue is one in which inconsistencies already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency, and standardize the optional membership of elected officials in a manner similar to existing TRS 1 provisions. Additionally, this proposal may support attraction and retention of state elected officials.

Select Committee on Pension Policy

Executive Committee Recommendation

In the 2004 interim, the executive committee agreed to forward the subgroup proposal to the full committee for public hearing. During the 2005 interim, the executive committee forwarded this issue to the full Committee for reconsideration.

Bill (2005)

Attached

Fiscal Note (2006 Draft)

Attached

HOUSE BILL 1318

State of Washington

59th Legislature

2005 Regular Session

By Representatives Crouse, Conway, Simpson, Upthegrove and Linville;
by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

1 AN ACT Relating to allowing certain members of the teachers',
2 school employees', and public employees' retirement systems to return
3 to work without restrictions or begin receiving their retirement
4 allowance before separation from state elective office; amending RCW
5 41.32.010, 41.32.263, 41.35.030, and 41.40.023; adding a new section to
6 chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; and
7 adding a new section to chapter 41.40 RCW.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW
10 to read as follows:

11 A member who retires on or after attainment of age seventy and one-
12 half and enters employment with an employer at least one month after
13 his or her accrual date may continue to receive pension payments while
14 engaged in such service without restriction. The retiree is no longer
15 an active member and may not make contributions, or receive service
16 credit, for future periods of employment while receiving his or her
17 retirement allowance. This section does not apply to any member who is
18 a state elected official unless that member leaves elected office or is
19 reappointed or reelected after the effective date of this act.

1 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW
2 to read as follows:

3 A member who retires on or after attainment of age seventy and one-
4 half and enters employment with an employer at least one month after
5 his or her accrual date may continue to receive pension payments while
6 engaged in such service without restriction. The retiree is no longer
7 an active member and may not make contributions, or receive service
8 credit, for future periods of employment while receiving his or her
9 retirement allowance. This section does not apply to any member who is
10 a state elected official unless that member leaves elected office or is
11 reappointed or reelected after the effective date of this act.

12 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW
13 to read as follows:

14 A member who retires on or after attainment of age seventy and one-
15 half and enters employment with an employer at least one month after
16 his or her accrual date may continue to receive pension payments while
17 engaged in such service without restriction. The retiree is no longer
18 an active member and may not make contributions, or receive service
19 credit, for future periods of employment while receiving his or her
20 retirement allowance. This section does not apply to any member who is
21 a state elected official unless that member leaves elected office or is
22 reappointed or reelected after the effective date of this act.

23 **Sec. 4.** RCW 41.32.010 and 2003 c 31 s 1 are each amended to read
24 as follows:

25 As used in this chapter, unless a different meaning is plainly
26 required by the context:

27 (1)(a) "Accumulated contributions" for plan 1 members, means the
28 sum of all regular annuity contributions and, except for the purpose of
29 withdrawal at the time of retirement, any amount paid under RCW
30 41.50.165(2) with regular interest thereon.

31 (b) "Accumulated contributions" for plan 2 members, means the sum
32 of all contributions standing to the credit of a member in the member's
33 individual account, including any amount paid under RCW 41.50.165(2),
34 together with the regular interest thereon.

35 (2) "Actuarial equivalent" means a benefit of equal value when

1 computed upon the basis of such mortality tables and regulations as
2 shall be adopted by the director and regular interest.

3 (3) "Annuity" means the moneys payable per year during life by
4 reason of accumulated contributions of a member.

5 (4) "Member reserve" means the fund in which all of the accumulated
6 contributions of members are held.

7 (5)(a) "Beneficiary" for plan 1 members, means any person in
8 receipt of a retirement allowance or other benefit provided by this
9 chapter.

10 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
11 in receipt of a retirement allowance or other benefit provided by this
12 chapter resulting from service rendered to an employer by another
13 person.

14 (6) "Contract" means any agreement for service and compensation
15 between a member and an employer.

16 (7) "Creditable service" means membership service plus prior
17 service for which credit is allowable. This subsection shall apply
18 only to plan 1 members.

19 (8) "Dependent" means receiving one-half or more of support from a
20 member.

21 (9) "Disability allowance" means monthly payments during
22 disability. This subsection shall apply only to plan 1 members.

23 (10)(a) "Earnable compensation" for plan 1 members, means:

24 (i) All salaries and wages paid by an employer to an employee
25 member of the retirement system for personal services rendered during
26 a fiscal year. In all cases where compensation includes maintenance
27 the employer shall fix the value of that part of the compensation not
28 paid in money.

29 (ii) For an employee member of the retirement system teaching in an
30 extended school year program, two consecutive extended school years, as
31 defined by the employer school district, may be used as the annual
32 period for determining earnable compensation in lieu of the two fiscal
33 years.

34 (iii) "Earnable compensation" for plan 1 members also includes the
35 following actual or imputed payments, which are not paid for personal
36 services:

37 (A) Retroactive payments to an individual by an employer on
38 reinstatement of the employee in a position, or payments by an employer

1 to an individual in lieu of reinstatement in a position which are
2 awarded or granted as the equivalent of the salary or wages which the
3 individual would have earned during a payroll period shall be
4 considered earnable compensation and the individual shall receive the
5 equivalent service credit.

6 (B) If a leave of absence, without pay, is taken by a member for
7 the purpose of serving as a member of the state legislature, and such
8 member has served in the legislature five or more years, the salary
9 which would have been received for the position from which the leave of
10 absence was taken shall be considered as compensation earnable if the
11 employee's contribution thereon is paid by the employee. In addition,
12 where a member has been a member of the state legislature for five or
13 more years, earnable compensation for the member's two highest
14 compensated consecutive years of service shall include a sum not to
15 exceed thirty-six hundred dollars for each of such two consecutive
16 years, regardless of whether or not legislative service was rendered
17 during those two years.

18 (iv) For members employed less than full time under written
19 contract with a school district, or community college district, in an
20 instructional position, for which the member receives service credit of
21 less than one year in all of the years used to determine the earnable
22 compensation used for computing benefits due under RCW 41.32.497,
23 41.32.498, and 41.32.520, the member may elect to have earnable
24 compensation defined as provided in RCW 41.32.345. For the purposes of
25 this subsection, the term "instructional position" means a position in
26 which more than seventy-five percent of the member's time is spent as
27 a classroom instructor (including office hours), a librarian, or a
28 counselor. Earnable compensation shall be so defined only for the
29 purpose of the calculation of retirement benefits and only as necessary
30 to insure that members who receive fractional service credit under RCW
31 41.32.270 receive benefits proportional to those received by members
32 who have received full-time service credit.

33 (v) "Earnable compensation" does not include:

34 (A) Remuneration for unused sick leave authorized under RCW
35 41.04.340, 28A.400.210, or 28A.310.490;

36 (B) Remuneration for unused annual leave in excess of thirty days
37 as authorized by RCW 43.01.044 and 43.01.041.

1 (b) "Earnable compensation" for plan 2 and plan 3 members, means
2 salaries or wages earned by a member during a payroll period for
3 personal services, including overtime payments, and shall include wages
4 and salaries deferred under provisions established pursuant to sections
5 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
6 shall exclude lump sum payments for deferred annual sick leave, unused
7 accumulated vacation, unused accumulated annual leave, or any form of
8 severance pay.

9 "Earnable compensation" for plan 2 and plan 3 members also includes
10 the following actual or imputed payments which, except in the case of
11 (b)(ii)(B) of this subsection, are not paid for personal services:

12 (i) Retroactive payments to an individual by an employer on
13 reinstatement of the employee in a position or payments by an employer
14 to an individual in lieu of reinstatement in a position which are
15 awarded or granted as the equivalent of the salary or wages which the
16 individual would have earned during a payroll period shall be
17 considered earnable compensation, to the extent provided above, and the
18 individual shall receive the equivalent service credit.

19 (ii) In any year in which a member serves in the legislature the
20 member shall have the option of having such member's earnable
21 compensation be the greater of:

22 (A) The earnable compensation the member would have received had
23 such member not served in the legislature; or

24 (B) Such member's actual earnable compensation received for
25 teaching and legislative service combined. Any additional
26 contributions to the retirement system required because compensation
27 earnable under (b)(ii)(A) of this subsection is greater than
28 compensation earnable under (b)(ii)(B) of this subsection shall be paid
29 by the member for both member and employer contributions.

30 (11) "Employer" means the state of Washington, the school district,
31 or any agency of the state of Washington by which the member is paid.

32 (12) "Fiscal year" means a year which begins July 1st and ends June
33 30th of the following year.

34 (13) "Former state fund" means the state retirement fund in
35 operation for teachers under chapter 187, Laws of 1923, as amended.

36 (14) "Local fund" means any of the local retirement funds for
37 teachers operated in any school district in accordance with the
38 provisions of chapter 163, Laws of 1917 as amended.

1 (15) "Member" means any teacher included in the membership of the
2 retirement system. Also, any other employee of the public schools who,
3 on July 1, 1947, had not elected to be exempt from membership and who,
4 prior to that date, had by an authorized payroll deduction, contributed
5 to the member reserve.

6 (16) "Membership service" means service rendered subsequent to the
7 first day of eligibility of a person to membership in the retirement
8 system: PROVIDED, That where a member is employed by two or more
9 employers the individual shall receive no more than one service credit
10 month during any calendar month in which multiple service is rendered.
11 The provisions of this subsection shall apply only to plan 1 members.

12 (17) "Pension" means the moneys payable per year during life from
13 the pension reserve.

14 (18) "Pension reserve" is a fund in which shall be accumulated an
15 actuarial reserve adequate to meet present and future pension
16 liabilities of the system and from which all pension obligations are to
17 be paid.

18 (19) "Prior service" means service rendered prior to the first date
19 of eligibility to membership in the retirement system for which credit
20 is allowable. The provisions of this subsection shall apply only to
21 plan 1 members.

22 (20) "Prior service contributions" means contributions made by a
23 member to secure credit for prior service. The provisions of this
24 subsection shall apply only to plan 1 members.

25 (21) "Public school" means any institution or activity operated by
26 the state of Washington or any instrumentality or political subdivision
27 thereof employing teachers, except the University of Washington and
28 Washington State University.

29 (22) "Regular contributions" means the amounts required to be
30 deducted from the compensation of a member and credited to the member's
31 individual account in the member reserve. This subsection shall apply
32 only to plan 1 members.

33 (23) "Regular interest" means such rate as the director may
34 determine.

35 (24)(a) "Retirement allowance" for plan 1 members, means monthly
36 payments based on the sum of annuity and pension, or any optional
37 benefits payable in lieu thereof.

1 (b) "Retirement allowance" for plan 2 and plan 3 members, means
2 monthly payments to a retiree or beneficiary as provided in this
3 chapter.

4 (25) "Retirement system" means the Washington state teachers'
5 retirement system.

6 (26)(a) "Service" for plan 1 members means the time during which a
7 member has been employed by an employer for compensation.

8 (i) If a member is employed by two or more employers the individual
9 shall receive no more than one service credit month during any calendar
10 month in which multiple service is rendered.

11 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
12 sick leave may be creditable as service solely for the purpose of
13 determining eligibility to retire under RCW 41.32.470.

14 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
15 state retirement system that covers teachers in public schools may be
16 applied solely for the purpose of determining eligibility to retire
17 under RCW 41.32.470.

18 (b) "Service" for plan 2 and plan 3 members, means periods of
19 employment by a member for one or more employers for which earnable
20 compensation is earned subject to the following conditions:

21 (i) A member employed in an eligible position or as a substitute
22 shall receive one service credit month for each month of September
23 through August of the following year if he or she earns earnable
24 compensation for eight hundred ten or more hours during that period and
25 is employed during nine of those months, except that a member may not
26 receive credit for any period prior to the member's employment in an
27 eligible position except as provided in RCW 41.32.812 and
28 41.50.132((+)).

29 (ii) If a member is employed either in an eligible position or as
30 a substitute teacher for nine months of the twelve month period between
31 September through August of the following year but earns earnable
32 compensation for less than eight hundred ten hours but for at least six
33 hundred thirty hours, he or she will receive one-half of a service
34 credit month for each month of the twelve month period((+)).

35 (iii) All other members in an eligible position or as a substitute
36 teacher shall receive service credit as follows:

37 (A) A service credit month is earned in those calendar months where
38 earnable compensation is earned for ninety or more hours;

1 (B) A half-service credit month is earned in those calendar months
2 where earnable compensation is earned for at least seventy hours but
3 less than ninety hours; and

4 (C) A quarter-service credit month is earned in those calendar
5 months where earnable compensation is earned for less than seventy
6 hours.

7 (iv) Any person who is a member of the teachers' retirement system
8 and who is elected or appointed to a state elective position may
9 continue to be a member of the retirement system and continue to
10 receive a service credit month for each of the months in a state
11 elective position by making the required member contributions.

12 (v) Any member of the teachers' retirement system plan 2 or plan 3
13 who is elected to the state legislature has the option during a ninety-
14 day period at the beginning of each term of office either to resume
15 membership or to end membership in the retirement system and if
16 otherwise eligible begin their retirement allowance. A state
17 legislator who chooses to end membership at the beginning of a term of
18 office and begin their retirement allowance shall neither make
19 contributions nor earn service credit for the duration of that term.

20 (vi) Any member of the teachers' retirement system plan 2 or plan
21 3 who is elected to a state elective position other than the state
22 legislature has the option during a ninety-day period at the beginning
23 of each term of office either to resume membership or to end membership
24 in the retirement system and if otherwise eligible begin their
25 retirement allowance. A state elected official other than a state
26 legislator who chooses to end membership at the beginning of a term of
27 office and begin their retirement allowance shall neither make
28 contributions nor earn service credit for the duration of that term.

29 (vii) When an individual is employed by two or more employers the
30 individual shall only receive one month's service credit during any
31 calendar month in which multiple service for ninety or more hours is
32 rendered.

33 ~~((vi))~~ (viii) As authorized by RCW 28A.400.300, up to forty-five
34 days of sick leave may be creditable as service solely for the purpose
35 of determining eligibility to retire under RCW 41.32.470. For purposes
36 of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is
37 equal to two service credit months. Use of less than forty-five days

1 of sick leave is creditable as allowed under this subsection as
2 follows:

3 (A) Less than eleven days equals one-quarter service credit month;

4 (B) Eleven or more days but less than twenty-two days equals one-
5 half service credit month;

6 (C) Twenty-two days equals one service credit month;

7 (D) More than twenty-two days but less than thirty-three days
8 equals one and one-quarter service credit month;

9 (E) Thirty-three or more days but less than forty-five days equals
10 one and one-half service credit month.

11 (~~((vii))~~) (ix) As authorized in RCW 41.32.065, service earned in an
12 out-of-state retirement system that covers teachers in public schools
13 may be applied solely for the purpose of determining eligibility to
14 retire under RCW 41.32.470.

15 (~~((viii))~~) (x) The department shall adopt rules implementing this
16 subsection.

17 (27) "Service credit year" means an accumulation of months of
18 service credit which is equal to one when divided by twelve.

19 (28) "Service credit month" means a full service credit month or an
20 accumulation of partial service credit months that are equal to one.

21 (29) "Teacher" means any person qualified to teach who is engaged
22 by a public school in an instructional, administrative, or supervisory
23 capacity. The term includes state, educational service district, and
24 school district superintendents and their assistants and all employees
25 certificated by the superintendent of public instruction; and in
26 addition thereto any full time school doctor who is employed by a
27 public school and renders service of an instructional or educational
28 nature.

29 (30) "Average final compensation" for plan 2 and plan 3 members,
30 means the member's average earnable compensation of the highest
31 consecutive sixty service credit months prior to such member's
32 retirement, termination, or death. Periods constituting authorized
33 leaves of absence may not be used in the calculation of average final
34 compensation except under RCW 41.32.810(2).

35 (31) "Retiree" means any person who has begun accruing a retirement
36 allowance or other benefit provided by this chapter resulting from
37 service rendered to an employer while a member.

1 (32) "Department" means the department of retirement systems
2 created in chapter 41.50 RCW.

3 (33) "Director" means the director of the department.

4 (34) "State elective position" means any position held by any
5 person elected or appointed to statewide office or elected or appointed
6 as a member of the legislature.

7 (35) "State actuary" or "actuary" means the person appointed
8 pursuant to RCW 44.44.010(2).

9 (36) "Substitute teacher" means:

10 (a) A teacher who is hired by an employer to work as a temporary
11 teacher, except for teachers who are annual contract employees of an
12 employer and are guaranteed a minimum number of hours; or

13 (b) Teachers who either (i) work in ineligible positions for more
14 than one employer or (ii) work in an ineligible position or positions
15 together with an eligible position.

16 (37)(a) "Eligible position" for plan 2 members from June 7, 1990,
17 through September 1, 1991, means a position which normally requires two
18 or more uninterrupted months of creditable service during September
19 through August of the following year.

20 (b) "Eligible position" for plan 2 and plan 3 on and after
21 September 1, 1991, means a position that, as defined by the employer,
22 normally requires five or more months of at least seventy hours of
23 earnable compensation during September through August of the following
24 year.

25 (c) For purposes of this chapter an employer shall not define
26 "position" in such a manner that an employee's monthly work for that
27 employer is divided into more than one position.

28 (d) The elected position of the superintendent of public
29 instruction is an eligible position.

30 (38) "Plan 1" means the teachers' retirement system, plan 1
31 providing the benefits and funding provisions covering persons who
32 first became members of the system prior to October 1, 1977.

33 (39) "Plan 2" means the teachers' retirement system, plan 2
34 providing the benefits and funding provisions covering persons who
35 first became members of the system on and after October 1, 1977, and
36 prior to July 1, 1996.

37 (40) "Plan 3" means the teachers' retirement system, plan 3

1 providing the benefits and funding provisions covering persons who
2 first become members of the system on and after July 1, 1996, or who
3 transfer under RCW 41.32.817.

4 (41) "Index" means, for any calendar year, that year's annual
5 average consumer price index, Seattle, Washington area, for urban wage
6 earners and clerical workers, all items compiled by the bureau of labor
7 statistics, United States department of labor.

8 (42) "Index A" means the index for the year prior to the
9 determination of a postretirement adjustment.

10 (43) "Index B" means the index for the year prior to index A.

11 (44) "Index year" means the earliest calendar year in which the
12 index is more than sixty percent of index A.

13 (45) "Adjustment ratio" means the value of index A divided by index
14 B.

15 (46) "Annual increase" means, initially, fifty-nine cents per month
16 per year of service which amount shall be increased each July 1st by
17 three percent, rounded to the nearest cent.

18 (47) "Member account" or "member's account" for purposes of plan 3
19 means the sum of the contributions and earnings on behalf of the member
20 in the defined contribution portion of plan 3.

21 (48) "Separation from service or employment" occurs when a person
22 has terminated all employment with an employer.

23 (49) "Employed" or "employee" means a person who is providing
24 services for compensation to an employer, unless the person is free
25 from the employer's direction and control over the performance of work.
26 The department shall adopt rules and interpret this subsection
27 consistent with common law.

28 **Sec. 5.** RCW 41.32.263 and 1991 c 35 s 41 are each amended to read
29 as follows:

30 A member of the retirement system who is a member of the state
31 legislature or a state official eligible for the combined pension and
32 annuity provided by RCW 41.32.497((7)) or 41.32.498(~~(7, as now or~~
33 ~~hereafter amended)~~) shall have deductions taken from his or her salary
34 in the amount of seven and one-half percent of earnable compensation
35 and that service credit shall be established with the retirement system
36 while such deductions are reported to the retirement system, unless he
37 or she has by reason of his or her employment become a contributing

1 member of another public retirement system in the state of Washington.
2 Such elected official who has retired or otherwise terminated his or
3 her public school service may then elect to terminate his or her
4 membership in the retirement system and receive retirement benefits
5 while continuing to serve as an elected official. A member of the
6 retirement system who had previous service as an elected or appointed
7 official, for which he or she did not contribute to the retirement
8 system, may receive credit for such legislative service unless he or
9 she has received credit for that service in another state retirement
10 system, upon making contributions in such amounts as shall be
11 determined by the (~~board of trustees~~) director.

12 **Sec. 6.** RCW 41.35.030 and 2003 c 157 s 2 are each amended to read
13 as follows:

14 Membership in the retirement system shall consist of all regularly
15 compensated classified employees and appointive and elective officials
16 of employers, as defined in this chapter, with the following
17 exceptions:

18 (1) Persons in ineligible positions;

19 (2)(a) Persons holding elective offices or persons appointed
20 directly by the governor: PROVIDED, That such persons shall have the
21 option of applying for membership during such periods of employment:
22 AND PROVIDED FURTHER, That any persons holding or who have held
23 elective offices or persons appointed by the governor who are members
24 in the retirement system and who have, prior to becoming such members,
25 previously held an elective office, and did not at the start of such
26 initial or successive terms of office exercise their option to become
27 members, may apply for membership to be effective during such term or
28 terms of office, and shall be allowed to establish the service credit
29 applicable to such term or terms of office upon payment of the employee
30 contributions therefor by the employee with interest as determined by
31 the director and employer contributions therefor by the employer or
32 employee with interest as determined by the director: AND PROVIDED
33 FURTHER, That all contributions with interest submitted by the employee
34 under this subsection shall be placed in the employee's individual
35 account in the employee's savings fund and be treated as any other
36 contribution made by the employee, with the exception that any
37 contributions submitted by the employee in payment of the employer's

1 obligation, together with the interest the director may apply to the
2 employer's contribution, shall not be considered part of the member's
3 annuity for any purpose except withdrawal of contributions;

4 (b) A member holding elective office other than state elective
5 office who has elected to apply for membership pursuant to (a) of this
6 subsection and who later (~~wishes to be~~) is eligible for a retirement
7 allowance shall have the option of ending his or her membership in the
8 retirement system. A member (~~wishing to end~~) ending his or her
9 membership under this subsection must file on a form supplied by the
10 department a statement indicating that the member agrees to irrevocably
11 abandon any claim for service for future periods served as an elected
12 official. A member who receives more than fifteen thousand dollars per
13 year in compensation for his or her elective service, adjusted annually
14 for inflation by the director, is not eligible for the option provided
15 by this subsection (2)(b);

16 (c) Any member of the school employees' retirement system plan 2 or
17 plan 3 who is elected to the state legislature has the option during a
18 ninety-day period at the beginning of each term of office either to
19 resume membership or to end membership in the retirement system and if
20 otherwise eligible begin their retirement allowance. A state
21 legislator who chooses to end membership at the beginning of a term of
22 office and begin their retirement allowance shall neither make
23 contributions nor earn service credit for the duration of that term;

24 (d) Any member of the school employees' retirement system plan 2 or
25 plan 3 who is elected to a state elective position other than the state
26 legislature has the option during a ninety-day period at the beginning
27 of each term of office either to resume membership or to end membership
28 in the retirement system and if otherwise eligible begin their
29 retirement allowance. A state elected official other than a state
30 legislator who chooses to end membership at the beginning of a term of
31 office and begin their retirement allowance shall neither make
32 contributions nor earn service credit for the duration of that term;

33 (3) Retirement system retirees: PROVIDED, That following
34 reemployment in an eligible position, a retiree may elect to
35 prospectively become a member of the retirement system if otherwise
36 eligible;

37 (4) Persons enrolled in state-approved apprenticeship programs,
38 authorized under chapter 49.04 RCW, and who are employed by employers

1 to earn hours to complete such apprenticeship programs, if the employee
2 is a member of a union-sponsored retirement plan and is making
3 contributions to such a retirement plan or if the employee is a member
4 of a Taft-Hartley retirement plan;

5 (5) Persons rendering professional services to an employer on a
6 fee, retainer, or contract basis or when the income from these services
7 is less than fifty percent of the gross income received from the
8 person's practice of a profession;

9 (6) Substitute employees, except for the purposes of the purchase
10 of service credit under rcw 41.35.033. Upon the return or termination
11 of the absent employee a substitute employee is replacing, that
12 substitute employee shall no longer be ineligible under this
13 subsection;

14 (7) Employees who (a) are not citizens of the United States, (b) do
15 not reside in the United States, and (c) perform duties outside of the
16 United States;

17 (8) Employees who (a) are not citizens of the United States, (b)
18 are not covered by chapter 41.48 RCW, (c) are not excluded from
19 membership under this chapter or chapter 41.04 RCW, (d) are residents
20 of this state, and (e) make an irrevocable election to be excluded from
21 membership, in writing, which is submitted to the director within
22 thirty days after employment in an eligible position;

23 (9) Employees who are citizens of the United States and who reside
24 and perform duties for an employer outside of the United States:
25 PROVIDED, That unless otherwise excluded under this chapter or chapter
26 41.04 RCW, the employee may apply for membership (a) within thirty days
27 after employment in an eligible position and membership service credit
28 shall be granted from the first day of membership service, and (b)
29 after this thirty-day period, but membership service credit shall be
30 granted only if payment is made for the noncredited membership service
31 under RCW 41.50.165(2), otherwise service shall be from the date of
32 application.

33 **Sec. 7.** RCW 41.40.023 and 2001 c 37 s 1 are each amended to read
34 as follows:

35 Membership in the retirement system shall consist of all regularly
36 compensated employees and appointive and elective officials of
37 employers, as defined in this chapter, with the following exceptions:

1 (1) Persons in ineligible positions;

2 (2) Employees of the legislature except the officers thereof
3 elected by the members of the senate and the house and legislative
4 committees, unless membership of such employees be authorized by the
5 said committee;

6 (3)(a) Persons holding elective offices or persons appointed
7 directly by the governor: PROVIDED, That such persons shall have the
8 option of applying for membership during such periods of employment:
9 AND PROVIDED FURTHER, That any persons holding or who have held
10 elective offices or persons appointed by the governor who are members
11 in the retirement system and who have, prior to becoming such members,
12 previously held an elective office, and did not at the start of such
13 initial or successive terms of office exercise their option to become
14 members, may apply for membership to be effective during such term or
15 terms of office, and shall be allowed to establish the service credit
16 applicable to such term or terms of office upon payment of the employee
17 contributions therefor by the employee with interest as determined by
18 the director and employer contributions therefor by the employer or
19 employee with interest as determined by the director: AND PROVIDED
20 FURTHER, That all contributions with interest submitted by the employee
21 under this subsection shall be placed in the employee's individual
22 account in the employee's savings fund and be treated as any other
23 contribution made by the employee, with the exception that any
24 contributions submitted by the employee in payment of the employer's
25 obligation, together with the interest the director may apply to the
26 employer's contribution, shall not be considered part of the member's
27 annuity for any purpose except withdrawal of contributions;

28 (b) A member holding elective office other than state elective
29 office who has elected to apply for membership pursuant to (a) of this
30 subsection and who later (~~wishes to be~~) is eligible for a retirement
31 allowance shall have the option of ending his or her membership in the
32 retirement system. A member (~~wishing to end~~) ending his or her
33 membership under this subsection must file, on a form supplied by the
34 department, a statement indicating that the member agrees to
35 irrevocably abandon any claim for service for future periods served as
36 an elected official. A member who receives more than fifteen thousand
37 dollars per year in compensation for his or her elective service,

1 adjusted annually for inflation by the director, is not eligible for
2 the option provided by this subsection (3)(b);

3 (c) Any member of the public employees' retirement system who is
4 elected to the state legislature has the option during a ninety-day
5 period at the beginning of each term of office either to resume
6 membership or to end membership in the retirement system and if
7 otherwise eligible begin their retirement allowance. A state
8 legislator who chooses to end membership at the beginning of a term of
9 office and begin their retirement allowance shall neither make
10 contributions nor earn service credit for the duration of that term;

11 (d) Any member of the public employees' retirement system who is
12 elected to a state elective position other than the state legislature
13 has the option during a ninety-day period at the beginning of each term
14 of office either to resume membership or to end membership in the
15 retirement system and if otherwise eligible begin their retirement
16 allowance. A state elected official other than a state legislator who
17 chooses to end membership at the beginning of a term of office and
18 begin their retirement allowance shall neither make contributions nor
19 earn service credit for the duration of that term;

20 (4) Employees holding membership in, or receiving pension benefits
21 under, any retirement plan operated wholly or in part by an agency of
22 the state or political subdivision thereof, or who are by reason of
23 their current employment contributing to or otherwise establishing the
24 right to receive benefits from any such retirement plan except as
25 follows:

26 (a) In any case where the retirement system has in existence an
27 agreement with another retirement system in connection with exchange of
28 service credit or an agreement whereby members can retain service
29 credit in more than one system, such an employee shall be allowed
30 membership rights should the agreement so provide;

31 (b) An employee shall be allowed membership if otherwise eligible
32 while receiving survivor's benefits;

33 (c) An employee shall not either before or after June 7, 1984, be
34 excluded from membership or denied service credit pursuant to this
35 subsection solely on account of: (i) Membership in the plan created
36 under chapter 2.14 RCW; or (ii) enrollment under the relief and
37 compensation provisions or the pension provisions of the volunteer fire
38 fighters' relief and pension fund under chapter 41.24 RCW;

1 (d) Except as provided in RCW 41.40.109, on or after July 25, 1999,
2 an employee shall not be excluded from membership or denied service
3 credit pursuant to this subsection solely on account of participation
4 in a defined contribution pension plan qualified under section 401 of
5 the internal revenue code;

6 (e) Employees who have been reported in the retirement system prior
7 to July 25, 1999, and who participated during the same period of time
8 in a defined contribution pension plan qualified under section 401 of
9 the internal revenue code and operated wholly or in part by the
10 employer, shall not be excluded from previous retirement system
11 membership and service credit on account of such participation;

12 (5) Patient and inmate help in state charitable, penal, and
13 correctional institutions;

14 (6) "Members" of a state veterans' home or state soldiers' home;

15 (7) Persons employed by an institution of higher learning or
16 community college, primarily as an incident to and in furtherance of
17 their education or training, or the education or training of a spouse;

18 (8) Employees of an institution of higher learning or community
19 college during the period of service necessary to establish eligibility
20 for membership in the retirement plans operated by such institutions;

21 (9) Persons rendering professional services to an employer on a
22 fee, retainer, or contract basis or when the income from these services
23 is less than fifty percent of the gross income received from the
24 person's practice of a profession;

25 (10) Persons appointed after April 1, 1963, by the liquor control
26 board as agency vendors;

27 (11) Employees of a labor guild, association, or organization:
28 PROVIDED, That elective officials and employees of a labor guild,
29 association, or organization which qualifies as an employer within this
30 chapter shall have the option of applying for membership;

31 (12) Retirement system retirees: PROVIDED, That following
32 reemployment in an eligible position, a retiree may elect to
33 prospectively become a member of the retirement system if otherwise
34 eligible;

35 (13) Persons employed by or appointed or elected as an official of
36 a first class city that has its own retirement system: PROVIDED, That
37 any member elected or appointed to an elective office on or after April
38 1, 1971, shall have the option of continuing as a member of this system

1 in lieu of becoming a member of the city system. A member who elects
2 to continue as a member of this system shall pay the appropriate member
3 contributions and the city shall pay the employer contributions at the
4 rates prescribed by this chapter. The city shall also transfer to this
5 system all of such member's accumulated contributions together with
6 such further amounts as necessary to equal all employee and employer
7 contributions which would have been paid into this system on account of
8 such service with the city and thereupon the member shall be granted
9 credit for all such service. Any city that becomes an employer as
10 defined in RCW 41.40.010(4) as the result of an individual's election
11 under this subsection shall not be required to have all employees
12 covered for retirement under the provisions of this chapter. Nothing
13 in this subsection shall prohibit a city of the first class with its
14 own retirement system from: (a) Transferring all of its current
15 employees to the retirement system established under this chapter, or
16 (b) allowing newly hired employees the option of continuing coverage
17 under the retirement system established by this chapter.

18 Notwithstanding any other provision of this chapter, persons
19 transferring from employment with a first class city of over four
20 hundred thousand population that has its own retirement system to
21 employment with the state department of agriculture may elect to remain
22 within the retirement system of such city and the state shall pay the
23 employer contributions for such persons at like rates as prescribed for
24 employers of other members of such system;

25 (14) Employees who (a) are not citizens of the United States, (b)
26 do not reside in the United States, and (c) perform duties outside of
27 the United States;

28 (15) Employees who (a) are not citizens of the United States, (b)
29 are not covered by chapter 41.48 RCW, (c) are not excluded from
30 membership under this chapter or chapter 41.04 RCW, (d) are residents
31 of this state, and (e) make an irrevocable election to be excluded from
32 membership, in writing, which is submitted to the director within
33 thirty days after employment in an eligible position;

34 (16) Employees who are citizens of the United States and who reside
35 and perform duties for an employer outside of the United States:
36 PROVIDED, That unless otherwise excluded under this chapter or chapter
37 41.04 RCW, the employee may apply for membership (a) within thirty days
38 after employment in an eligible position and membership service credit

1 shall be granted from the first day of membership service, and (b)
2 after this thirty-day period, but membership service credit shall be
3 granted only if payment is made for the noncredited membership service
4 under RCW 41.50.165(2), otherwise service shall be from the date of
5 application;

6 (17) The city manager or chief administrative officer of a city or
7 town, other than a retiree, who serves at the pleasure of an appointing
8 authority: PROVIDED, That such persons shall have the option of
9 applying for membership within thirty days from date of their
10 appointment to such positions. Persons serving in such positions as of
11 April 4, 1986, shall continue to be members in the retirement system
12 unless they notify the director in writing prior to December 31, 1986,
13 of their desire to withdraw from membership in the retirement system.
14 A member who withdraws from membership in the system under this section
15 shall receive a refund of the member's accumulated contributions.

16 Persons serving in such positions who have not opted for membership
17 within the specified thirty days, may do so by paying the amount
18 required under RCW 41.50.165(2) for the period from the date of their
19 appointment to the date of acceptance into membership;

20 (18) Persons serving as: (a) The chief administrative officer of
21 a public utility district as defined in RCW 54.16.100; (b) the chief
22 administrative officer of a port district formed under chapter 53.04
23 RCW; or (c) the chief administrative officer of a county who serves at
24 the pleasure of an appointing authority: PROVIDED, That such persons
25 shall have the option of applying for membership within thirty days
26 from the date of their appointment to such positions. Persons serving
27 in such positions as of July 25, 1999, shall continue to be members in
28 the retirement system unless they notify the director in writing prior
29 to December 31, 1999, of their desire to withdraw from membership in
30 the retirement system. A member who withdraws from membership in the
31 system under this section shall receive a refund of the member's
32 accumulated contributions upon termination of employment or as
33 otherwise consistent with the plan's tax qualification status as
34 defined in internal revenue code section 401.

35 Persons serving in such positions who have not opted for membership
36 within the specified thirty days, may do so at a later date by paying
37 the amount required under RCW 41.50.165(2) for the period from the date
38 of their appointment to the date of acceptance into membership;

1 (19) Persons enrolled in state-approved apprenticeship programs,
2 authorized under chapter 49.04 RCW, and who are employed by local
3 governments to earn hours to complete such apprenticeship programs, if
4 the employee is a member of a union-sponsored retirement plan and is
5 making contributions to such a retirement plan or if the employee is a
6 member of a Taft-Hartley retirement plan;

7 (20) Beginning on July 22, 2001, persons employed exclusively as
8 trainers or trainees in resident apprentice training programs operated
9 by housing authorities authorized under chapter 35.82 RCW, (a) if the
10 trainer or trainee is a member of a union-sponsored retirement plan and
11 is making contributions to such a retirement plan or (b) if the
12 employee is a member of a Taft-Hartley retirement plan.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	8/9/05	Age 70 ½ and Opt in/Opt Out

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System, School Employee's Retirement System, and Teachers Retirement System by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction; upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, or are re-elected after the effective date of the act.

The bill also allows state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

After a one-month separation, PERS, SERS, and TRS 2/3 retirees may return to work for 867 hours per calendar year or school year before their benefit is suspended. PERS 1 members may return to work after a 3-month separation and work up to 1,500 hours per calendar year before their benefit is suspended. TRS 1 members may return to work after a one-month separation and work for up to 1,500 hours per school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

MEMBERS IMPACTED:

We estimate that potentially all active members in these systems could be affected by the age 70 1/2 portion of this bill. Active members currently over age 70 1/2 would be impacted on the effective date of the bill. This includes 375 out of 156,256 active members in PERS, 31 out of 66,634 in TRS, and 135 out of 49,854 in SERS.

We estimate that relatively few members in these systems could be affected by the opt-in/opt-out portion of this bill, although nearly all members could potentially become elected officials. The opt-in/opt-out portion of the bill would impact the current state elected officials in the systems if they are reelected following the effective date. This includes 148 active members in PERS, 1 in TRS (not including 4 in TRS 1 who already have the opt-in/opt-out provision), and 0 in SERS.

We estimate that a typical member impacted by the age 70 1/2 provision of this bill would receive a benefit of about \$11,700 per year, but would give up additional benefit accruals of about \$1,000 per year. For example, a PERS member who retired at age 74 with 19 years of service would receive an annual benefit of \$13,200; waiting one additional year to retire would result in an annual benefit of \$14,400. A typical SERS member who retired at age 74 with 12 years of service would receive an annual benefit of \$4,600; waiting one additional year to retire would result in an annual benefit of \$5,200. The impact on long service members over age 70 1/2, and not subject to the 30-year service cap, is greater than the impact on short service members.

ASSUMPTIONS:

Our current retirement rate assumptions have all members retiring at age 70 or earlier. The members over 70 1/2 who continue working after we have assumed they will retire, typically produce an actuarial experience gain to the system. In general, the benefits earned for each year of additional service and increases in pay after age 70 are not as valuable as the retirement benefits that could have been received in the year. This is especially true for Plan 1 members who already have hit the 30-year maximum on service.

To determine the cost of the age 70 1/2 provision, we started with an assumption change for the retirement rates at age 70 and beyond. For PERS and SERS, we replaced our 100% retirement assumption at age 70 with 25% per year from age 70 to 81 and 100% at age 82. We did not change the rates before age 70. For TRS, we did not change our 100% assumption at age 70, because the number of active TRS members working past age 70 is not significant compared to PERS and SERS, and the oldest active TRS member is 78, compared to 88 in both PERS and SERS. So we would not expect any significant cost impact for TRS.

For PERS and SERS, we compared the costs of the plans with the new retirement assumption to the costs using an alternative retirement assumption. We increased the 25% rate to 37.5% as an estimate of how many more active members over age 70 1/2 would retire after the bill is effective.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS	\$ 28,099	\$ 19	\$ 28,118
	TRS	\$ 15,616	\$ 0	\$ 15,616
	SERS	\$ 2,126	\$ 1	\$ 2,127
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS	\$ 2,563	\$ 8	\$ 2,571
	TRS	\$ 1,415	\$ 0	\$ 1,415
	SERS	\$ N/A	\$ N/A	\$ N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$ (673)	\$ 18	\$ (655)
	TRS	\$ (235)	\$ 0	\$ (235)
	SERS	\$ (439)	\$ 1	\$ (438)

Increase in Contribution Rates: (Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee	0.02%	0.00%	0.01%
Employer State*	0.03%	0.00%	0.02%
New Entrants**			
Employee	0.01%	0.00%	0.00%
Employer State	0.01%	0.00%	0.00%

* 0.01% of the total employer rate increase goes toward amortizing the Plan 1 UAAL.

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	\$0.3	\$0.0	\$0.1	\$0.4
Non-General Fund	<u>\$0.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.6</u>
Total State	\$0.9	\$0.0	\$0.1	\$1.0
Local Government	\$0.9	\$0.0	\$0.1	\$1.0
Total Employer	\$1.8	\$0.0	\$0.2	\$2.0
Total Employee	\$0.9	\$0.0	\$0.0	\$0.9
2007-2009				
State:				
General Fund	\$0.8	\$0.0	\$0.2	\$1.0
Non-General Fund	<u>\$1.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$1.6</u>
Total State	\$2.4	\$0.0	\$0.2	\$2.6
Local Government	\$2.2	\$0.0	\$0.4	\$2.6
Total Employer	\$4.6	\$0.0	\$0.6	\$5.2
Total Employee	\$2.2	\$0.0	\$0.1	\$2.3
2006-2031				
State:				
General Fund	\$13.9	\$0.0	\$2.2	\$16.1
Non-General Fund	<u>\$25.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$25.4</u>
Total State	\$39.3	\$0.0	\$2.2	\$41.5
Local Government	\$35.4	\$0.0	\$3.6	\$39.0
Total Employer	\$74.7	\$0.0	\$5.8	\$80.5
Total Employee	\$31.5	\$0.0	\$0.6	\$32.1

State Actuary's Comments:

The postponed retirements after age 70 1/2 currently produce actuarial gains. The age 70 1/2 portion of the bill would reduce these gains. The opt-in/opt-out provision of the bill would apply to a small group of members and the associated cost would be insufficient to increase rates.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same methods and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Membership data, assets, and Fiscal Budget Determinations were based on preliminary 2004 data.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: The retirement rate assumptions for PERS and SERS were changed. The retirement rate of 100% at age 70 was changed to 25% from age 70 to 81 and 100% at age 82.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not

produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Select Committee on Pension Policy

Plan 3 Vesting

(August 1, 2004)

Issue	Reduce the required length of service for vesting in the Defined Benefit (DB) portion of the PERS, SERS, and TRS Plans 3 from ten years to five years.
Staff	Laura Harper, Senior Research Analyst/Legal (360) 586-7616
Members Impacted	As of the most recent valuation, there were 58,101 Plan 3 members who were not vested. Non-vested members included those who had less than ten years of service; those who were not vested in Plan 2 on July 1, 1996, in TRS; September 1, 2000, in SERS; or June 1, 2003, in PERS; and those who did not have five years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.
Current Situation	New Plan 3 members of TRS, SERS, and PERS are vested in the DB portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the Defined Contribution (DC) portion of their Plan.
History	SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the DB vesting period in the Plans 3 from ten to five years. The bill passed the House, but was not

heard in the Senate. In 2004, similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate, but died in House Appropriations. In 2005, the SCPP recommended SB 5517/HB 1320, which would have made the same change to Plan 3 vesting as had been proposed in 2003 and 2004. A substitute bill passed the House that would have lowered the vesting period from ten to five years only for those members who are age 45 and older. This modification made the bill less costly, however, the substitute bill did not receive a hearing in Senate Ways and Means.

Policy Analysis

The Plans 3 are hybrid plans. The DB portion of these plans (the portion to which the ten-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: $1\% \times \text{Average Final Compensation (AFC)} \times \text{years of service credit}$. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the DC portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10 percent of AFC upon vesting (5 years \times 2% per year). This 10 percent standard was used for the DB portion of the Plans 3. Setting the vesting period in the Plans 3 to ten years guaranteed vested members 10 percent of their AFC as a minimum defined benefit (10 years \times 1% per year).

In the design of the Plans 3, the long vesting period for the DB portion of the pension was offset by the fact that Plan 3 members were immediately vested in the DC portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the DB portion of Plan 3 for members who entered the plan at various ages and separated from service after five years. These examples assume an average final compensation of \$30,000 and an annual inflation rate of 3.5 percent.

Future Value of Plan 3 Benefit, Adjusted for 3.5 percent Assumed Inflation
(Defined Benefit payable at 65 = 1% x \$30,000 x 5 years of service)

Entry Age	Age at Separation	DB Benefit at 65	Future Value*	% of DB
25	30	\$1,500	\$450	30%
35	40	\$1,500	\$635	42%
45	50	\$1,500	\$895	60%
55	60	\$1,500	\$1,263	84%

**Reduced for 3.5 percent assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited due to failure to vest is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the ten-year vesting period and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of current employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least 20 service-credit years receive the additional benefit of an "inflation protector." These members receive an increase in the DB portion of their retirement allowance of 3 percent per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

Comparison with Washington Plans and Other States

The ten-year vesting period for the DB portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all DB and not hybrid plans, have five-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a ten-year vesting period. In the **2002 survey from the Public Pension Coordinating Council** covering 276 public retirement plans, a total of 96 plans had vesting requirements of ten years or more. More than 40 of those plans were administered by 25 states or territories in addition to Washington. In comparison, 132 plans had vesting requirements of five years or less. The survey results are attached.

Results of the **Wisconsin Legislative Councils' 2002 Comparative Study of Major Public Employee Retirement Systems** are also attached. According to this report, in 2002 a total of 60 out of 85 plans required five years or less of service to vest, with an increase of six plans in this category since the 2000 report. The number of plans in 2002 that required ten years of service to vest decreased by five plans from the 2000 report and by 20 plans from the 1990 report.

Options

The proposal to lower the vesting period for the DB portion of the Plans 3 from ten to five years has been considered and rejected during the last three legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost.

An option for lowering the cost was explored in the development of last session's substitute bill, which proposed a five-year vesting in the higher age bracket (i.e. those 45 and over) when the vesting period is more likely to affect employment behavior. Currently five-year vesting is available in the Plans 3 if 12 months of a member's service is earned after attaining age 54. That age could certainly be lowered to a threshold age of 50 or 45. These options were priced in November 2004 and the results are attached in the document entitled **Plan 3 Vesting Supplemental Summary**.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the DB component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the DB portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

Stakeholder Input

Letters requesting that Plan 3 vesting be considered by the SCPP during the 2004 and/or 2005 interim are attached.

Executive Committee Recommendation

At its July 19, 2005, meeting the Executive Committee considered whether to bring this issue back before the full committee. At that time it was decided that the full SCPP should consider the issue at its August 23, 2005, meeting.

Bills

Copies of the SCPP's 2005 bill and the House's substitute for the bill are attached. This SCPP's bill would reduce the required length of service for vesting in the DB portion of PERS, SERS, and TRS Plans 3 from ten years to five years. The substitute bill would do the same, but only for those who are age 45 and older.

Fiscal Note

The two fiscal notes for the 2005 bills are attached. Each bill would increase contribution rates in the PERS, TRS, and SERS Plans 2 and Plans 3, although the substitute bill would do so to a lesser extent. It should be noted that if passed, the cost of this Plan 3 benefit enhancement would be shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan (Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund -- Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE
0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE

0314A	CITY OF BISMARCK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARCK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	386	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICE FOR PLAN A; 4YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,635	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,858	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan) Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE
0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS

0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan (Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,400	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	288,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE
0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE

0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	18,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	968	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Association	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE
0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	9,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS

0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AGE 55)
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	7 1/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	181	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	
0650A	Fairfax County Water Authority Retirement Plan	0	
0655A	Spokane Employees' Retirement Plan	0	

Number of plans with vesting requirements of 10 or more years	96
Active members of plans with vesting requirements of 10 or more years	3,662,540

Number of plans with vesting requirements of less than 10 years	172
Active members of plans with vesting requirements of less than 10 years	5,988,342

Number of plans with vesting requirements of 5 years or less	132
Active members of plans with vesting requirements of 5 years or less	4,908,400

* About 50,000 members in Tier 2



WISCONSIN LEGISLATIVE COUNCIL

2002 COMPARATIVE STUDY OF MAJOR PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Prepared by:

William Ford, Senior Staff Attorney
Wisconsin Legislative Council

December 2003

PART III CONTRIBUTION AND VESTING REQUIREMENTS

A. INTRODUCTION

Chart 3, on pages 18 and 19, shows the vesting period, the employee contribution rate, and the employer contribution rate for each of the 85 plans in the report. The contribution rates are shown as a percentage of salary.

B. VESTING

The term "vesting" refers to an employee's right, after satisfying some minimum service requirement, to receive a pension benefit regardless of whether the employee remains in a job covered by the pension plan. Vesting requirements for the plans included in the 2002 Report are displayed in the last column of Chart 3. The following table shows the changes that have occurred since 2000 in the plans covered by the report:

	<u>2000 Report</u>	<u>2002 Report</u>
Immediate vesting	2 plans	2 plans
Vesting after 3 years	6 plans	6 plans
Vesting after 4 years	5 plans	5 plans
Vesting after 5 years	42 plans	47 plans
Vesting after 8 years	4 plans	4 plans
Vesting after 10 years	25 plans	20 plans
Graded or varying	1 plan	1 plan
TOTAL	85 plans	85 plans

In 2002, a total of 60 plans, or 71% of the 85 plans in the report, require five years or less years of service to vest. This is an increase of 6 plans since the 2000 Report. The trend appears to be towards vesting periods of 5 years or less, perhaps reflecting federal vesting requirements that apply to private sector pension plans. The number of plans in 2002 that require 10 years of service to vest has decreased by 5 plans from the 2000 Report and by 20 plans from the 1990 report.

B. EMPLOYEE CONTRIBUTIONS

Large private sector corporations that provide pension plans frequently do not require employee contributions to the primary plan, but frequently also provide supplemental profit-sharing or savings plans which allow employees to contribute to the plan and receive an employer "match" to some or all of the contribution. Conversely, most public employee pension plans at least nominally require employees to contribute a certain percentage of their salary to the plan, although, as will be discussed below, some public employee pension plans provide for employer "pick-up" of the employee contribution. In addition, secondary savings plans for public



**WASHINGTON
SCHOOL
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MAY 17 2004

Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

President
Patty Laughery, Moses Lake

President-Elect
Chuck Cuzzetto, Peninsula

Past President
Marcie McKaig, Shelton

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Region IV
Jan Lande, Tukwila
Debbie Leighton, Auburn

Region V
Greg Roberts, South Kitsap

Region VI
Debby Carter, Edmonds

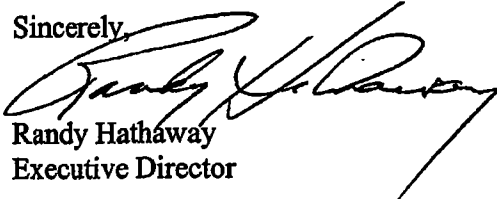
In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning \$50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay \$34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,



Randy Hathaway
Executive Director

cc: Barb Mertens, WASA

WPEA

Washington Public Employees Association, UFCW Local 365

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May 23, 2005

TO: Senator Karen Fraser, Chair
Members of the Select Committee on Pension Policy
State Actuary Staff

FROM: Lynn Maier, Governmental Relations Director 

SUBJECT: Requested Interim Study Issues

As you develop a potential interim work plan, I respectfully request that you consider issues important to WPEA outlined below.

Of most significance is the directive given to the SCPP via passage of HB 1044 to study options regarding the liability associated with future gain-sharing distributions given the legislature's choice to suspend gain-sharing for the 2005-07 biennium.

As you may recall, WPEA joined a host of other employee organizations in strong support of the package recommended to the legislature by the SCPP providing for a modified Rule of 90 in Plans 2 and 3 and modest improvements in Plan 1 in lieu of gain-sharing. We remain steadfast in our support of the original package and in our desire to achieve a viable trade-off for the loss of gain-sharing. And, we urge Committee members to revisit this issue with vigor with the intent of developing a comparable set of recommendations to the 2006 legislature. We also urge the SCPP to revisit the issue of 5-year vesting in Plan 3.

In addition to the above, we would appreciate SCPP consideration this interim of the following issues:

- Inclusion of DNR Natural Resource Investigators, DNR Forest Crew Supervisors and Deputy State Fire Marshals in the Public Safety Employees Retirement System (PSERS)
- Military service credit in PERS 2 and 3 comparable with PERS 1 (WPEA initiated HB 1522/SB 5521)
- Plan 2 access to state health plans at age 55 with at least 10 years of service on *separation* from employment (WPEA initiated HB 1520/SB 5520)

Regarding our request for additions to PSERS, we believe that the duties of the job classes enumerated meet the intent of the enabling legislation regarding physical risk and public protection of lives and property. PSERS goes into effect in July 2006, thus it is imperative that attention be given to our request to ensure consideration in the next legislative session.

Thank you for your consideration of these issues. I look forward to working with you during the interim.

HOUSE BILL 1320

State of Washington

59th Legislature

2005 Regular Session

By Representatives Alexander, Conway, Crouse, Simpson, Upthegrove and Chase; by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

1 AN ACT Relating to vesting after five years of service in the
2 defined benefit portion of the public employees' retirement system, the
3 school employees' retirement system, and the teachers' retirement
4 system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
7 read as follows:

8 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
9 and who has ((+

10 ~~(a))~~ completed ~~((ten))~~ five service credit years ~~((+ or~~

11 ~~(b) Completed five service credit years, including twelve service~~
12 ~~credit months after attaining age fifty-four; or~~

13 ~~(e))~~ or completed five service credit years by July 1, 1996, under
14 plan 2 and who transferred to plan 3 under RCW 41.32.817 ~~((+))~~
15 shall be eligible to retire and to receive a retirement allowance
16 computed according to the provisions of RCW 41.32.840.

17 (2) EARLY RETIREMENT. Any member who has attained at least age
18 fifty-five and has completed at least ten years of service shall be
19 eligible to retire and to receive a retirement allowance computed

1 according to the provisions of RCW 41.32.840, except that a member
2 retiring pursuant to this subsection shall have the retirement
3 allowance actuarially reduced to reflect the difference in the number
4 of years between age at retirement and the attainment of age sixty-
5 five.

6 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
7 least thirty service credit years and has attained age fifty-five shall
8 be eligible to retire and to receive a retirement allowance computed
9 according to the provisions of RCW 41.32.840, except that a member
10 retiring pursuant to this subsection shall have the retirement
11 allowance reduced by three percent per year to reflect the difference
12 in the number of years between age at retirement and the attainment of
13 age sixty-five.

14 **Sec. 2.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
15 read as follows:

16 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
17 and who has ((+

18 ~~(a))~~ completed ~~((ten))~~ five service credit years ~~((+ or~~

19 ~~(b) Completed five service credit years, including twelve service~~
20 ~~credit months after attaining age fifty-four; or~~

21 ~~(e))~~ or completed five service credit years by September 1, 2000,
22 under the public employees' retirement system plan 2 and who
23 transferred to plan 3 under RCW 41.35.510 ~~((+))~~
24 shall be eligible to retire and to receive a retirement allowance
25 computed according to the provisions of RCW 41.35.620.

26 (2) EARLY RETIREMENT. Any member who has attained at least age
27 fifty-five and has completed at least ten years of service shall be
28 eligible to retire and to receive a retirement allowance computed
29 according to the provisions of RCW 41.35.620, except that a member
30 retiring pursuant to this subsection shall have the retirement
31 allowance actuarially reduced to reflect the difference in the number
32 of years between age at retirement and the attainment of age sixty-
33 five.

34 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
35 least thirty service credit years and has attained age fifty-five shall
36 be eligible to retire and to receive a retirement allowance computed
37 according to the provisions of RCW 41.35.620, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance reduced by three percent per year to reflect the difference
3 in the number of years between age at retirement and the attainment of
4 age sixty-five.

5 **Sec. 3.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
6 read as follows:

7 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
8 and who has ((+

9 ~~(a))~~ completed ~~((ten))~~ five service credit years ~~((+ or~~

10 ~~(b) Completed five service credit years, including twelve service~~
11 ~~credit months after attaining age fifty-four; or~~

12 ~~(c))~~ or completed five service credit years by the transfer
13 payment date specified in RCW 41.40.795, under the public employees'
14 retirement system plan 2 and who transferred to plan 3 under RCW
15 41.40.795 ~~((+))~~

16 shall be eligible to retire and to receive a retirement allowance
17 computed according to the provisions of RCW 41.40.790.

18 (2) EARLY RETIREMENT. Any member who has attained at least age
19 fifty-five and has completed at least ten years of service shall be
20 eligible to retire and to receive a retirement allowance computed
21 according to the provisions of RCW 41.40.790, except that a member
22 retiring pursuant to this subsection shall have the retirement
23 allowance actuarially reduced to reflect the difference in the number
24 of years between age at retirement and the attainment of age sixty-
25 five.

26 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
27 least thirty service credit years and has attained age fifty-five shall
28 be eligible to retire and to receive a retirement allowance computed
29 according to the provisions of RCW 41.40.790, except that a member
30 retiring pursuant to this subsection shall have the retirement
31 allowance reduced by three percent per year to reflect the difference
32 in the number of years between age at retirement and the attainment of
33 age sixty-five.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	8/3/05	Plan 3 Vesting

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, 58,101 out of 98,587 Plan 3 members had less than 10 years of service or were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to leave public employment with between 5 to 10 years of service and before they earned 12 months of service after age 54.

System/ Plan	Vested	Non-Vested
PERS 3	9,447	10,408
TRS 3	19,979	29,323
SERS 3	11,060	18,370

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 2/3	\$ 15,280	\$ 5	\$ 15,285
	TRS 2/3	\$ 5,256	\$ 11	\$ 5,267
	SERS 2/3	\$ 2,126	\$ 7	\$ 2,133
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)		N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	\$ (2,927)	\$ 2	\$ (2,925)
	TRS 2/3	\$ (1,427)	\$ 6	\$ (1,421)
	SERS 2/3	\$ (439)	\$ 4	\$ (435)

Increase in Contribution Rates: (Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee	0.01%	0.03%	0.05%
Employer State	0.01%	0.03%	0.05%
New Entrants*			
Employee	0.04%	N/A	N/A
Employer State	0.04%	0.06%	0.18%

*Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	\$0.2	\$0.9	\$0.4	\$1.5
Non-General Fund	<u>\$0.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.4</u>
Total State	\$0.6	\$0.9	\$0.4	\$1.9
Local Government	\$0.5	\$0.5	\$0.6	\$1.6
Total Employer	\$1.1	\$1.4	\$1.0	\$3.5
Total Employee	\$0.7	\$0.1	\$0.2	\$1.0
2007-2009				
State:				
General Fund	\$0.6	\$2.1	\$1.1	\$3.8
Non-General Fund	<u>\$1.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$1.1</u>
Total State	\$1.7	\$2.1	\$1.1	\$4.9
Local Government	\$1.5	\$1.1	\$1.7	\$4.3
Total Employer	\$3.2	\$3.2	\$2.8	\$9.2
Total Employee	\$1.9	\$0.2	\$0.4	\$2.5
2006-2031				
State:				
General Fund	\$24.0	\$70.7	\$48.9	\$143.6
Non-General Fund	<u>\$46.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$46.4</u>
Total State	\$70.4	\$70.7	\$48.9	\$190.0
Local Government	\$63.8	\$35.2	\$73.7	\$172.7
Total Employer	\$134.2	\$105.9	\$122.6	\$362.7
Total Employee	\$70.3	\$1.5	\$3.0	\$74.8

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter – Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of future gain-sharing benefits.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

SUBSTITUTE HOUSE BILL 1320

State of Washington

59th Legislature

2005 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Alexander, Conway, Crouse, Simpson, Upthegrove and Chase; by request of Select Committee on Pension Policy)

READ FIRST TIME 02/24/05.

1 AN ACT Relating to vesting after five years of service in the
2 defined benefit portion of the public employees' retirement system, the
3 school employees' retirement system, and the teachers' retirement
4 system plan 3; amending RCW 41.32.875, 41.35.680, and 41.40.820; and
5 creating a new section.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
8 read as follows:

9 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
10 and who has:

11 (a) Completed ten service credit years; or

12 (b) Completed five service credit years, including twelve service
13 credit months after attaining age (~~(fifty-four)~~) forty-four; or

14 (c) Completed five service credit years by July 1, 1996, under plan
15 2 and who transferred to plan 3 under RCW 41.32.817;

16 shall be eligible to retire and to receive a retirement allowance
17 computed according to the provisions of RCW 41.32.840.

18 (2) EARLY RETIREMENT. Any member who has attained at least age
19 fifty-five and has completed at least ten years of service shall be

1 eligible to retire and to receive a retirement allowance computed
2 according to the provisions of RCW 41.32.840, except that a member
3 retiring pursuant to this subsection shall have the retirement
4 allowance actuarially reduced to reflect the difference in the number
5 of years between age at retirement and the attainment of age sixty-
6 five.

7 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
8 least thirty service credit years and has attained age fifty-five shall
9 be eligible to retire and to receive a retirement allowance computed
10 according to the provisions of RCW 41.32.840, except that a member
11 retiring pursuant to this subsection shall have the retirement
12 allowance reduced by three percent per year to reflect the difference
13 in the number of years between age at retirement and the attainment of
14 age sixty-five.

15 **Sec. 2.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
16 read as follows:

17 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
18 and who has:

19 (a) Completed ten service credit years; or

20 (b) Completed five service credit years, including twelve service
21 credit months after attaining age (~~(fifty-four)~~) forty-four; or

22 (c) Completed five service credit years by September 1, 2000, under
23 the public employees' retirement system plan 2 and who transferred to
24 plan 3 under RCW 41.35.510;

25 shall be eligible to retire and to receive a retirement allowance
26 computed according to the provisions of RCW 41.35.620.

27 (2) EARLY RETIREMENT. Any member who has attained at least age
28 fifty-five and has completed at least ten years of service shall be
29 eligible to retire and to receive a retirement allowance computed
30 according to the provisions of RCW 41.35.620, except that a member
31 retiring pursuant to this subsection shall have the retirement
32 allowance actuarially reduced to reflect the difference in the number
33 of years between age at retirement and the attainment of age sixty-
34 five.

35 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
36 least thirty service credit years and has attained age fifty-five shall
37 be eligible to retire and to receive a retirement allowance computed

1 according to the provisions of RCW 41.35.620, except that a member
2 retiring pursuant to this subsection shall have the retirement
3 allowance reduced by three percent per year to reflect the difference
4 in the number of years between age at retirement and the attainment of
5 age sixty-five.

6 **Sec. 3.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
7 read as follows:

8 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
9 and who has:

10 (a) Completed ten service credit years; or

11 (b) Completed five service credit years, including twelve service
12 credit months after attaining age ((~~fifty-four~~)) forty-four; or

13 (c) Completed five service credit years by the transfer payment
14 date specified in RCW 41.40.795, under the public employees' retirement
15 system plan 2 and who transferred to plan 3 under RCW 41.40.795;
16 shall be eligible to retire and to receive a retirement allowance
17 computed according to the provisions of RCW 41.40.790.

18 (2) EARLY RETIREMENT. Any member who has attained at least age
19 fifty-five and has completed at least ten years of service shall be
20 eligible to retire and to receive a retirement allowance computed
21 according to the provisions of RCW 41.40.790, except that a member
22 retiring pursuant to this subsection shall have the retirement
23 allowance actuarially reduced to reflect the difference in the number
24 of years between age at retirement and the attainment of age sixty-
25 five.

26 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at
27 least thirty service credit years and has attained age fifty-five shall
28 be eligible to retire and to receive a retirement allowance computed
29 according to the provisions of RCW 41.40.790, except that a member
30 retiring pursuant to this subsection shall have the retirement
31 allowance reduced by three percent per year to reflect the difference
32 in the number of years between age at retirement and the attainment of
33 age sixty-five.

34 NEW SECTION. **Sec. 4.** If specific funding for the purposes of this
35 act, referencing this act by bill or chapter number, is not provided by

1 June 30, 2005, in the omnibus appropriations act, this act is null and
2 void.

--- END ---

Select Committee on Pension Policy

Plan 3 Vesting

Supplemental Summary

Costs (in Millions):	Plan 3 Vesting Threshold age = 50				Plan 3 Vesting Threshold age = 45			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
Increase in Contribution Rates								
Current Employee (Plan 2 only)	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
Current Employer	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
New Entrants Employee (Plan 2 only)*	0.01%	N/A	N/A		0.01%	N/A	N/A	
New Entrants Employer *	0.01%	0.01%	0.05%		0.01%	0.02%	0.11%	
2006-2007								
State:								
General Fund	\$0.0	\$0.3	\$0.1	\$0.4	\$0.0	\$0.3	\$0.3	\$0.6
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total State	\$0.0	\$0.3	\$0.1	\$0.4	\$0.0	\$0.3	\$0.3	\$0.6
Local Government	\$0.1	\$0.1	\$0.2	\$0.4	\$0.1	\$0.2	\$0.4	\$0.7
Total Employer	\$0.1	\$0.4	\$0.3	\$0.8	\$0.1	\$0.5	\$0.7	\$1.3
Total Employee	\$0.1	\$0.0	\$0.1	\$0.2	\$0.1	\$0.0	\$0.2	\$0.3
2006-2031								
State:								
General Fund	\$5.5	\$13.9	\$13.9	\$33.3	\$5.5	\$23.7	\$30.6	\$59.8
Non-General Fund	<u>\$10.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.6</u>	<u>\$10.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.6</u>
Total State	\$16.1	\$13.9	\$13.9	\$43.9	\$16.1	\$23.7	\$30.6	\$70.4
Local Government	\$14.8	\$7.0	\$21.1	\$42.9	\$14.8	\$11.7	\$45.9	\$72.4
Total Employer	\$30.9	\$20.9	\$35.0	\$86.8	\$30.9	\$35.4	\$76.5	\$142.8
Total Employee	\$15.6	\$0.0	\$1.2	\$16.8	\$15.6	\$0.0	\$2.4	\$18.0

*The increases in contribution rates for future new entrants are based on the increase in the Entry Age Normal Cost. This rate change is applied to future new entrant payroll and is used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.

Burkhart, Kelly

From: Liszak, Jerry [JLIS461@ECY.WA.GOV]
Sent: Wednesday, August 17, 2005 2:28 PM
To: Office State Actuary, WA
Subject: Select Committee on Pension Policy

Select Committee on Pension Policy

Dear Committee Members:

I seek fairness and legislative reparation of what I see as an inequity in the state retirement system. It is my understanding that legislative enactments will be required to resolve this problem. I am one of several Washington Department of Ecology military veterans and possibly hundreds of military veterans throughout state government who served in the Vietnam Theatre of operations and defined as the period beginning August 5, 1964, and ending May 7, 1975. I am writing you to solicit your support of Vietnam Era military veterans who were not able to obtain State of Washington employment before the PERS 1 retirement system ended.

Under the PERS I retirement system, veterans receive up to five years of service credit and retirement pay towards state retirement upon completion of twenty-five years of state service. Military veterans who have retired from active military service do not receive service credit.

Under PERS II and III, veterans receive no service credit or pay towards state retirement upon retirement. I am urging your support of legislation that would recognize Vietnam Era veteran's service in terms of retirement pay. Vested state employees with active military service should receive up to five years of service credit for retirement pay. Retirement requirements relating to age 65 years would remain applicable.

In the last legislative session Senate Bill 5112 provided public employment retirement credits for veterans of the Afghanistan conflict and the Persian Gulf War II. Vietnam War Veterans who served came home to a hostile public and many of us went to school. By the time we graduated and became employed it was too late to reap the benefits of the PERS I retirement system. I implore you to consider extending the same benefit to PERS II and III veterans. I believe that legislation to support this issue would require substantially no new funds, since to qualify for the twenty-five years of service credit such a veteran would have to work beyond age 65. I believe that the non-military employees and public would support this fairness issue. I look to our local leaders to also support this issue. I ask for your support and initiative in this matter.

Respectfully,

Jerry L. Liszak

Burkhart, Kelly

From: Harper, Laura
Sent: Thursday, August 25, 2005 4:58 PM
To: Jerry Lyszack (JLIS461@ECY.WA.GOV)
Cc: Burkhart, Kelly; Smith, Matt; Fromhold, Rep. Bill; Fraser, Sen. Karen
Subject: #104

Hello Mr. Lyszak. Thank you for your August 17, 2005 e-mail to the State Actuary and the Select Committee on Pension Policy (SCPP) regarding your concerns about parity in allowing credit for military service among the plans within the Public Employees' Retirement System (PERS). This e-mail was referred to me for response on August 24, 2005. As I understand your proposal, you would like to see the military service credit provisions of the Public Employees' Retirement System (PERS) Plan 1 incorporated into the PERS Plans 2 and 3.

The primary distinction between the Plan 1 and the Plans 2 and 3 is that in Plan 1, service credit for military service prior to becoming a public employee is available to members with 25 years or more of service credit, and at no cost to the member. As you have indicated, this would require a statutory change. The concern you have raised is certainly a matter of pension policy, which is the purview of the SCPP. The Committee is charged with the powers and duties of studying pension issues, developing pension policies for public employees in the state retirement systems, and making recommendations to the legislature. See RCW 41.04.281(1).

The SCPP's cycle of activity is usually as follows: during the period between legislative sessions (the "interim"), the SCPP identifies issues of concern and conducts in-depth work sessions on matters of public pension policy. Using the work sessions as a foundation, the committee then develops specific legislative proposals in the form of bill drafts that are priced by the Office of the State Actuary. Finally, as the new legislative session draws near, the SCPP takes action in the form of specific recommendations, and the recommended bills are forwarded to the legislature for introduction.

During the last interim, the SCPP conducted a work session on military service credit. It was the will of the committee at that time not to pursue an expansion of benefits in the Plans 2 and 3 such as the one you have proposed. Rather, the SCPP decided to focus on interruptive military service and sponsored HB 1325/ SB 5261. That bill authorizes interruptive military service credit for employees who cannot return to public employment due to death or total disability while serving in the uniformed services, and allows for service credit to be purchased by a disabled member or survivor(s) of a deceased member for interruptive military service up to the date of death or disability.

You may be interested to know that a non-SCPP bill was introduced during the 2005 session, HB 1522/ SB 1523, which would have replaced the PERS 2 military service credit provisions with those found in PERS 1. (PERS 3 was not addressed in the bill.) This bill was not forwarded from its assigned committee. The fiscal note on this bill indicated a total employer cost of \$14 million for the 2005-2007 biennium and \$181 million over the next 25 years.

Proposals for the 2006 legislative session are being considered by the SCPP during the 2005 interim, which is well under way. While the SCPP has already established a work plan that does not currently include military service credit as an agenda item, please be assured that your message and this response are being forwarded to the Committee Chair, Rep. Bill Fromhold, and the Vice-Chair, Senator Karen Fraser, so that your concerns may be heard.

For your information, meetings of the SCPP are public and notice of upcoming meetings is posted on the SCPP website, <http://www.leg.wa.gov/scpp/>. You can also use the website to find out about SCPP studies as well as specific proposals considered by the committee. Also, please feel free to contact the OSA for information about specific proposals by calling (360-786-6140) or e-mailing us at actuary.state@leg.wa.gov.

I hope this information is helpful, and if you have any additional questions, please feel free to contact me.

Laura Harper
Senior Research Analyst
(360) 786-6140

Select Committee on Pension Policy

Actuary Performance Evaluation

(November 12, 2003)

The State Actuary Appointment Committee has the statutory authority to review the performance and make adjustments to the pay of the State Actuary. The State Actuary Appointment Committee consists of:

- Chairs and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee; plus
- Four members of the Select Committee on Pension Policy (SCPP) appointed jointly by the Chair and Vice Chair of the SCPP.

The SCPP Executive Committee will conduct a review of the State Actuary's performance and relay it to the State Actuary Appointment Committee with recommendations for pay adjustments, as deemed appropriate. The review will take place at least once every two employment anniversaries of the State Actuary or as requested by the Chair of the SCPP.

In conducting the review, the Executive Committee of the SCPP or their designee will:

- Review the statutory responsibilities of the Office of the State Actuary (OSA);
- Request a self-performance evaluation, including future goals and development activities from the State Actuary;
- Develop a list of feedback sources which may include OSA staff, SCPP members, Directors of the Department of Retirement Systems and Office of Financial Management, Chairs and/or staff of the legislative fiscal committees and the Executive Director of the LEOFF 2 Board;
- Solicit written feedback from feedback sources;
- Meet with the State Actuary to share feedback and overall performance evaluation.
- Relay the results of the performance evaluation and any recommendations regarding performance and/or pay adjustments to the members of the State Actuary Appointment Committee.

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

December 22, 2004

Senator Joseph Zarelli, Chair
Senate Ways and Means Committee

Senator Margarita Prentice, Ranking Member
Senate Ways and Means Committee

Representative Helen Sommers, Chair
House Appropriations Committee

Representative Barry Sehlin, Ranking Minority
House Appropriations Committee

RE: ANNUAL EVALUATION OF MATHEW M. SMITH, STATE ACTUARY

Dear State Actuary Appointment Committee Members:

The Select Committee on Pension Policy has completed its annual evaluation of Mathew M. Smith, State Actuary. The evaluation coincides with Mr. Smith's two-year employment anniversary. The Committee evaluates Mr. Smith's performance as meeting or exceeding expectations in all performance areas.

In evaluating Mr. Smith's performance, the Committee solicited input from the leadership of the House and Senate fiscal committees, the Office of Financial Management, Department of Retirement Services, and the LEOFF 2 Board. Respondents were universal in providing a high level of appraisal for the service provided by Mr. Smith and the Actuary staff.

Based on the foregoing, the Committee recommends that Mr. Smith be granted advancement from Range 31, Step 20, to Range 31, Step 21, on the legislative salary schedule, effective with the next pay cycle.

The Committee will also be encouraging a review during the interim to evaluate the feasibility and practicability of establishing a separate salary schedule for the State Actuary to take into consideration the competitive aspects of this position.

Sincerely,



Senator Karen Fraser
Chair



Representative Steve Conway
Vice Chair

cc: Senate Facilities and Operations Committee, c/o Secretary of Senate
House Employment Committee, c/o Chief Clerk

O:\SCPP\SAAC 04\04 SAAC Evaluation Ltr.wpd

Representative Gary Alexander

Elaine M. Banks
TRS Retirees

Marty Brown, Director*
Office of Financial Management

Senator Don Carlson

John Charles, Director
Department of Retirement Systems

Representative Steve Conway*
Vice Chair

Representative Larry Crouse

Richard Ford
PERS Retirees

Senator Karen Fraser*
Chair

Representative Bill Fromhold

Leland A. Goeke*
TRS and SERS Employers

Bob Keller
PERS Actives

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Glenn Olson
PERS Employers

Diane Rae
TRS Actives

Senator Debbie Regala

J. Pat Thompson
PERS Actives

David Westberg*
SERS Actives

*Executive Committee

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